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SUBJECT: BANK OF CANADA GOVERNOR DODGE RETIRING NEXT JANUARY

11. (U) Summary: The Governor of the Bank of Canada (BOC), David Dodge, will step down at the end of January 2008 at the end of his seven-year term. The news was a surprise. Dodge is widely regarded as an extremely effective Governor who has kept Canada's inflation under control while presiding over one of Canada's longest periods of economic expansion since World War II. Dodge has also been seen as more public than his six predecessors as Canada's central banker, giving numerous speeches to business and economic groups in Canada and around the world. He has been as visible in Canadian financial markets as was Alan Greenspan in U.S. markets during his tenure as Fed chairman. Senior BOC and government officials and economists at Canada's top banks are seen as possible successors. The new Governor will be chosen by the Bank's board of directors, with the approval of the Finance Minister and the Cabinet. End Summary.

12. (U) Dodge, 63, announced on April 25 that he would not seek another seven-year term. He said he was revealing his plans well in advance to "facilitate the selection and appointment of his successor." Although the announcement gave no reasons for Dodge's unexpected decision, there was speculation that his age was a factor in his not seeking another seven-year term. The last Bank Governor to serve two full terms was Gerald Bouey between 1973 and 1987.

13. (U) There has been no indication of any philosophical disagreements or personal issues between Dodge and Conservative Finance Minister Flaherty. Indeed, Flaherty praised Dodge's tenure in a press release: "Governor Dodge has served Canada in the finest tradition of central bankers, and his influence has been felt not only here, but around the world. In particular, his strong leadership during the turbulent post-9/11 period has helped Canada lead the Group of Seven countries in economic growth."

14. (U) A Toronto native and Princeton graduate, Dodge joined the BOC in 2001 after having been Deputy Finance Minister and Deputy Minister of Health. At Finance, he convinced then Minister Paul Martin to combat Canada's huge budget deficit in the mid-1990s. Martin became Prime Minister in 2003, in part because of popularity he won in balancing Canada's books while GDP and employment sustained healthy growth.

15. (U) Governor Dodge may be a hard act to follow. He has helped steer the Canadian economy through one of its longest expansionary periods after World War II, cutting interest rates when exports weakened in 2001 to lift Canada out of a possible recession and helping keep the inflation rate within the BOC's one- to three-percent target range. Canada's mortgage rates and unemployment rate have also fallen to their lowest levels in decades since Dodge became governor in

February 2001. However, there was criticism of Dodge's relative inaction against the phenomenal appreciation of the "loonie" (Canadian dollar) between January 2002 and May 2006, which slowed Canada's exports and hurt manufacturing.

¶6. (U) Analysts believe that BOC Senior Deputy Governor Paul Jenkins may have the inside track as the logical replacement since most past Governors got their appointments after many years as understudies to the job. Dodge, on the other hand, was the rare outsider to head the Bank. BOC Deputy Governor Tiff Macklem has also been mentioned as a candidate to replace Dodge. Outside candidates may include Senior Associate Deputy Minister of Finance Mark Carney, who is a former BOC Deputy Governor and Goldman Sachs Group investment banker, and Toronto-Dominion Bank chief economist Don Drummond. The Globe and Mail mentioned Clerk of the Privy Council Kevin Lynch as a possible Governor. Currently Canada's top bureaucrat, Lynch has been Canada's representative at the IMF and also served, like Dodge, as Deputy Finance Minister.

¶7. (U) The BOC board of directors said that it would soon form a special committee to recruit a successor. Governors are appointed by the independent directors, subject to the approval of the Finance Minister and the Federal Cabinet. The selection process for the new governor is expected to be completed by fall.

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